

**MAJURO WATER AND SEWER COMPANY, INC.**

**(A COMPONENT UNIT OF THE  
REPUBLIC OF THE MARSHALL ISLANDS)**

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

**MAJURO WATER AND SEWER COMPANY, INC.**  
**(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)**

Years Ended September 30, 2013 and 2012  
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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Majuro Water and Sewer Company, Inc.:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Majuro Water and Sewer Company, Inc. (MWSC), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Majuro Water and Sewer Company, Inc. as of September 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

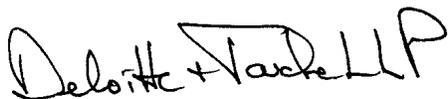
## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2014, on our consideration of MWSC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MWSC's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

September 8, 2014

## MAJURO WATER AND SEWER COMPANY, INC.

### Management's Discussion and Analysis Years Ended September 30, 2013 and 2012

This section of the Majuro Water & Sewer Company, Inc. (MWSC) annual financial report presents management's discussion and analysis of MWSC's financial performance during the fiscal year ended 30th September 2013. This discussion has been prepared by management along with the financial statements and related footnote disclosure and should be read in conjunction with them. Management assumes full responsibility for the completeness and reliability of information presented in this report.

#### FINANCIAL HIGHLIGHTS

MWSC's net position decreased by \$364,196 in 2013 compared to a decrease of \$38,851 in 2012.

Total operating revenues increased by \$191,691 in 2013 compared to a decrease in revenue of \$68,019 in 2012. Within the operating revenues, utility billings increased by \$7,881 from \$1,062,755 in 2012 to \$1,070,636 in 2013. Hook-ups and delivery billings increased by \$106,171 from \$324,694 in 2012 to \$430,865 in 2013. The increase in revenue is due to an increase in rates for water delivery services. Furthermore, there has been additional \$156,398 allowance provided for uncollectable accounts in 2013 compared with \$269,309 in 2012.

Operating expenses increased by \$298,182 from \$1,562,447 in 2012 to \$1,860,629 in 2013. The main contributing factor for the increase in operating expenses is an increase in salaries and wages of \$50,791, electricity of \$21,393, spare parts of \$8,448, petroleum of \$42,974, contractual services of \$39,423, travel of \$24,174, repairs and maintenance of \$3,407, office supplies of \$2,760, insurance of \$3,563, depreciation and amortization of \$42,445, and miscellaneous expense of \$62,217 offset by a decrease in communications of \$3,413.

The Statement of Cash Flows net change in cash was an increase of \$92,866 and a decrease of \$20,270 in 2012 and 2013, respectively. The operating activities of MWSC generated a net cash outflow of \$79,300 in 2013 compared to a net cash inflow of \$166,058 for 2012. As a result of the decrease in net cash flows, MWSC's net cash used for capital and related financing activities increased in 2013 as well.

#### FINANCIAL ANALYSIS OF MWSC

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position provide an indication of MWSC's financial condition. MWSC's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

A Summary of MWSC's Statements of Net Position is presented below:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 801,104	\$ 564,245	\$ 538,223
Capital and other assets	<u>462,912</u>	<u>520,526</u>	<u>234,767</u>
Total assets	<u>1,264,016</u>	<u>1,084,771</u>	<u>772,990</u>
Current liabilities	<u>1,331,349</u>	<u>787,908</u>	<u>437,276</u>
Net Position:			
Net investment in capital assets	354,107	370,526	234,767
Restricted	226,840	223,648	-
Unrestricted	<u>(648,280)</u>	<u>(297,311)</u>	<u>100,947</u>
Total net position	\$ <u>(67,333)</u>	\$ <u>296,863</u>	\$ <u>335,714</u>

## MAJURO WATER AND SEWER COMPANY, INC.

### Management's Discussion and Analysis Years Ended September 30, 2013 and 2012

As indicated above, total assets increased by \$179,245 from \$1,084,771 in 2012 to \$1,264,016 in 2013. Total liabilities reflects an increase of \$543,441 from \$787,908 in 2012 to \$1,331,349 in 2013. Total net position decreased by \$364,196 in 2013 to \$67,333. These were no non-current liabilities at 30th September 2013 or 2012.

A Summary of MWSC's Statements of Revenues, Expenses and Changes in Net Position is presented below:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues:			
Operating revenues	\$ 1,348,859	\$ 1,157,168	\$ 1,225,187
Non-operating revenues	<u>-</u>	<u>89,099</u>	<u>124,431</u>
Total revenues	<u>1,348,859</u>	<u>1,246,267</u>	<u>1,349,618</u>
Expenses:			
Operating expenses	1,860,629	1,562,447	1,360,572
Non-operating expenses	<u>2,426</u>	<u>6,139</u>	<u>2,699</u>
Total expenses	<u>1,863,055</u>	<u>1,568,586</u>	<u>1,363,271</u>
Capital contributions	<u>150,000</u>	<u>283,468</u>	<u>14,397</u>
Change in net position	\$ <u>(364,196)</u>	\$ <u>(38,851)</u>	\$ <u>744</u>

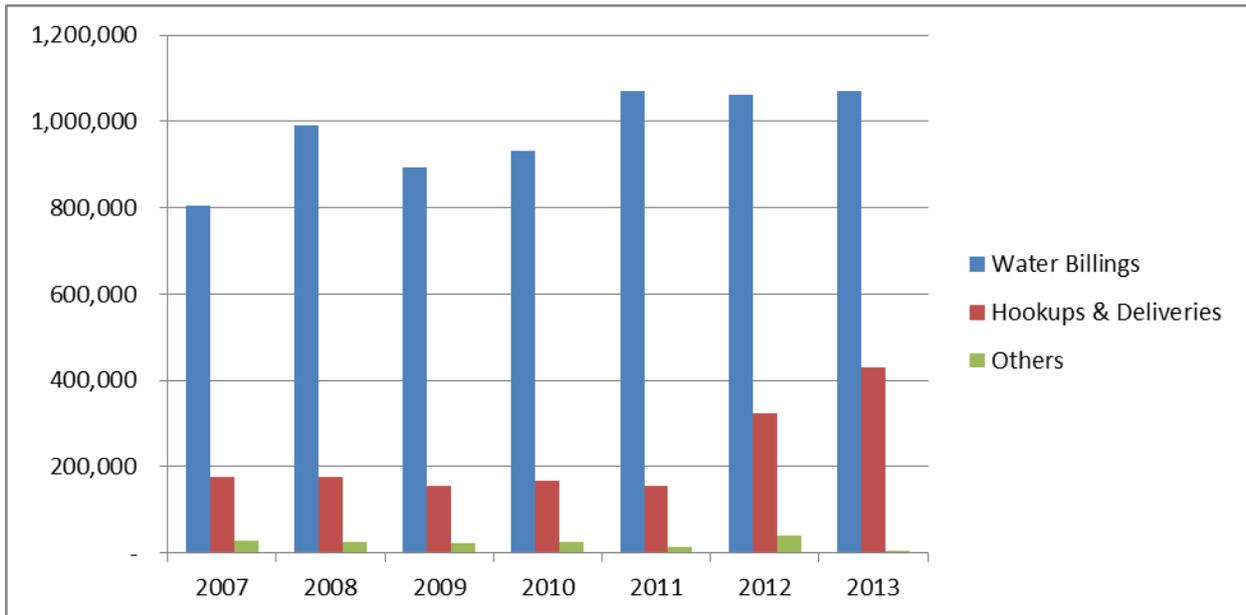
The Statements of Revenue, Expenses and Changes in Net Position identify the various revenue and expense items that impacted the change in net position. As indicated above, MWSC's operating revenue increased by \$191,691 or approximately 14.2% from \$1,157,168 in 2012 to \$1,348,859 in 2013. An increase in operating revenue for 2013 consists of hook-up and delivery billings increasing by \$106,171 (32.7%) and decrease in bad debts expense of \$112,911.

Non-operating revenues represent subsidies and grants received. RepMar discontinued financial support to assist MWSC with the payment of the monthly electricity bills owed to MEC. The grant received from SPREP in 2012 of \$89,099 was for the acquisition of flow meters and leak detection equipment. There was a subsidy of \$150,000 received from RepMar in 2013 for Capital Improvement Projects to acquire spare parts.

The graph below shows the major components of operating revenue for 2013 compared with the years 2007 through 2012.

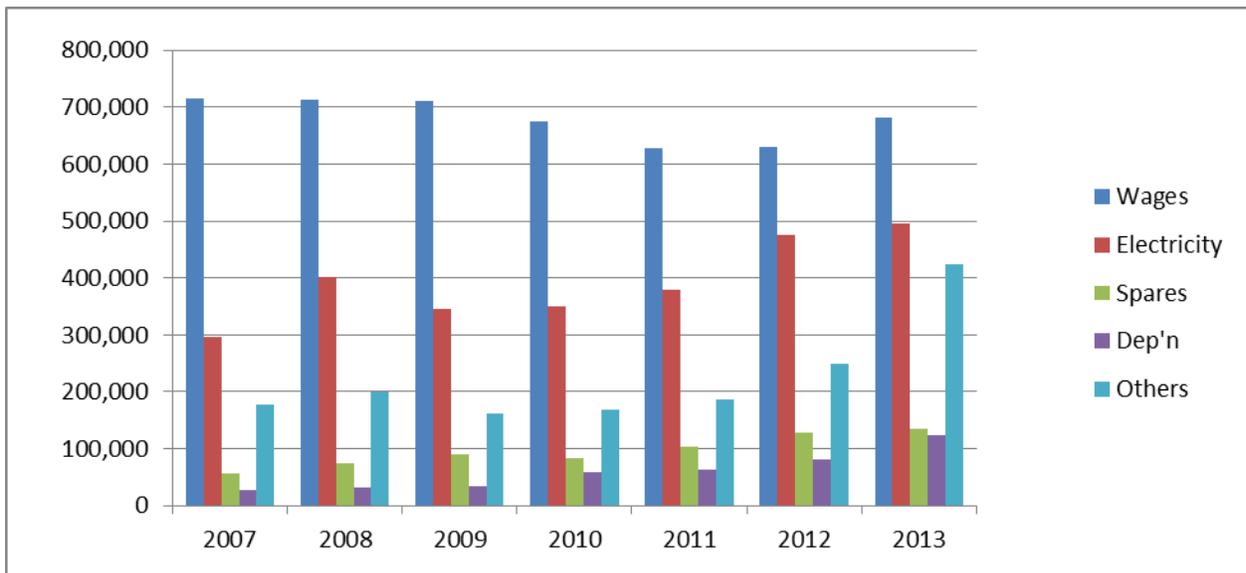
**MAJURO WATER AND SEWER COMPANY, INC.**

Management’s Discussion and Analysis  
 Years Ended September 30, 2013 and 2012



Operating expenses increased by \$298,182 or approximately 16.0% to \$1,860,629 in 2013 from \$1,562,447 in 2012.

The graph below shows the major components of operating expenses for 2013 compared with the years 2007 to 2012.



Management’s Discussion and Analysis for the year ended September 30, 2012 is set forth in MWSC’s report on the audit of financial statements, which is dated June 20, 2013. Such Management Discussion and Analysis explains the major factors impacting the 2012 financial statements and can be obtained from MWSC’s General Manager via the contact information on page 7.

## MAJURO WATER AND SEWER COMPANY, INC.

Management's Discussion and Analysis  
Years Ended September 30, 2013 and 2012

### CAPITAL ASSETS

Net capital assets decreased by \$16,419 in 2013 as a result of the acquisition of a vehicle for a total cost of \$28,300, and acquisition of machinery and equipment and office equipment costing \$95,699 less total vehicle retirement of \$17,479 and total depreciation for the year of \$122,939.

A summary of MWSC's capital assets is presented below:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Motor vehicles	\$ 164,545	\$ 153,724	\$ 193,495
Machinery and equipment	410,158	356,567	324,179
Office equipment	157,836	115,728	36,954
Building and leasehold improvement	<u>95,987</u>	<u>95,987</u>	<u>62,623</u>
	828,526	722,006	617,251
Less accumulated depreciation	<u>(474,419)</u>	<u>(351,480)</u>	<u>(382,484)</u>
	\$ <u>354,107</u>	\$ <u>370,526</u>	\$ <u>234,767</u>

MWSC received capital contributions of \$150,000 in 2013 from RepMar to acquire spare parts. Please refer to note 4 to the financial statements for additional information on MWSC's capital assets.

### FUTURE OUTLOOK ON SUSTAINABILITY

MWSC water and sewer infrastructure is at a high risk and in a serious state of deteriorating conditions. As infrastructures continue to wear out with time, lack of funding for proper maintenance and other environmental impacts, MWSC capacity decreased and capacity needs are on the rise due to increased customer base. For future sustainability, the following will need to be addressed and incorporated into MWSC's long term strategies and goals:

1. Better management of water and wastewater assets, which encompasses best practices to include asset management. MWSC needs to be able to carry out an ongoing process of oversight, evaluation and maintenance of their assets, as needed, to maximize the useful life of infrastructure.
2. Report to RepMar Government on essential renewals of its water and sewer assets.
3. Start charging all customers for services provided. Only an estimated 25% of sewer/salt water customers are paying now. Salt and sewer uses about 2/3 of power consumed and personnel costs.
  - Initiate survey of all services provided,
  - Start a campaign (radio, newspaper etc.) to advise on new disconnection policy,
  - Implement disconnections.
4. Monthly water balance to check system water losses. Comparison of water collected at airport, water stored, water treated versus water sold through customer meters. Use leak detection equipment to identify and fix water leaks in system. Continue with tracing and stopping illegal connections.
5. Efficient water use - incentives and educational programs will encourage more efficient use of water and to protect the water resources among the RMI community.

## **MAJURO WATER AND SEWER COMPANY, INC.**

Management's Discussion and Analysis  
Years Ended September 30, 2013 and 2012

### MWSC'S FOCUS IN THE COMING FISCAL YEAR

Following are specific MWSC's goals for the coming fiscal year to include but not limited to:

1. Obtain funding from Government of Japan for main pipeline renewal.
2. Obtain funding from donors for the purchase of fresh water trucks and a Jetting Machine. The acquisition of the aforementioned capital assets will increase revenues resulting from increased water deliveries and improved sewer services, respectively.
3. Follow up with board of directors/National Government on proposed Community Service Obligation to RepMar (Cabinet) to assist MWSC with its electricity bills.
4. Install reverse osmosis systems for increased fresh water capacity during droughts.
5. Reduce illegal water connections and enforce penalties, as appropriate.

### ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide MWSC's customers and other stake holders with an overview of MWSC's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Majuro Water and Sewer Company, Inc. General Manager at P.O. Box 1751, Majuro MH 96960.

**MAJURO WATER AND SEWER COMPANY, INC.**

Statements of Net Position  
September 30, 2013 and 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Current assets:		
Cash	\$ 170,233	\$ 190,503
Receivables:		
Utility	1,184,306	872,768
Affiliates	289,276	180,652
Other	28,488	22,319
	<u>1,502,070</u>	<u>1,075,739</u>
Less allowance for doubtful accounts	<u>(1,103,731)</u>	<u>(926,120)</u>
	<u>398,339</u>	<u>149,619</u>
Inventory	214,659	211,506
Prepaid expenses	17,873	12,617
Total current assets	801,104	564,245
Deposit on equipment	108,805	150,000
Capital assets, net	<u>354,107</u>	<u>370,526</u>
	<u>\$ 1,264,016</u>	<u>\$ 1,084,771</u>
 <u>LIABILITIES AND NET POSITION</u> 		
Current liabilities:		
Accounts payable	\$ 59,062	\$ 70,408
Payable to affiliates	1,218,371	664,584
Payable to grantor	-	15,740
Other accrued liabilities	53,916	37,176
Total current liabilities	<u>1,331,349</u>	<u>787,908</u>
Commitment and contingency		
Net position:		
Net investment in capital assets	354,107	370,526
Restricted	226,840	223,648
Unrestricted	<u>(648,280)</u>	<u>(297,311)</u>
Total net position	<u>(67,333)</u>	<u>296,863</u>
	<u>\$ 1,264,016</u>	<u>\$ 1,084,771</u>

See accompanying notes to financial statements.

## MAJURO WATER AND SEWER COMPANY, INC.

### Statements of Revenues, Expenses and Changes in Net Position Years Ended September 30, 2013 and 2012

	2013	2012
Operating revenues:		
Utility billings	\$ 1,070,636	\$ 1,062,755
Hook-up and deliveries	430,865	324,694
Other	3,756	39,028
	1,505,257	1,426,477
Less uncollectable accounts	(156,398)	(269,309)
Total operating revenues	1,348,859	1,157,168
Operating expenses:		
Salaries, wages and benefits	681,216	630,425
Electricity	496,941	475,548
Spare parts	135,805	127,357
Depreciation and amortization	122,939	80,494
Petroleum, oil and lubricants	102,501	59,527
Contractual services	71,408	31,985
Travel	38,854	14,680
Repairs and maintenance	25,840	22,433
Office supplies	25,352	22,592
Insurance	22,267	18,704
Communications	17,922	21,335
Miscellaneous	119,584	57,367
	1,860,629	1,562,447
Operating loss	(511,770)	(405,279)
Nonoperating revenues (expenses):		
Operating grant	-	89,099
Penalties and interest	(2,426)	(6,139)
	(2,426)	82,960
Total nonoperating revenues (expenses), net	(2,426)	82,960
Capital contributions	150,000	283,468
Change in net position	(364,196)	(38,851)
Net position at beginning of year	296,863	335,714
Net position at end of year	\$ (67,333)	\$ 296,863

See accompanying notes to financial statements.

# MAJURO WATER AND SEWER COMPANY, INC.

## Statements of Cash Flows Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	\$ 1,107,618	\$ 1,290,500
Cash payments to suppliers for goods and services	(597,699)	(475,537)
Cash payments to employees for services	(589,219)	(648,905)
Net cash provided by (used for) operating activities	(79,300)	166,058
Cash flows from noncapital financing activities:		
Penalties and interest paid	(2,426)	(6,139)
Cash flows from capital and related financing activities:		
Capital contributions received	134,260	299,200
Acquisition of capital assets	(82,804)	(366,253)
Proceeds from sale of capital assets	10,000	-
Net cash provided by (used for) capital and related financing activities	61,456	(67,053)
Net change in cash	(20,270)	92,866
Cash at beginning of year	190,503	97,637
Cash at end of year	\$ 170,233	\$ 190,503
Reconciliation of operating loss to net cash provided by (used for) operating activities:		
Operating loss	\$ (511,770)	\$ (405,279)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	122,939	80,494
Bad debts	156,398	269,309
(Increase) decrease in assets:		
Receivables:		
Utility	(290,325)	(170,211)
Affiliates	(108,624)	17,703
Other	1,310	(11,209)
Inventory	(3,153)	24,295
Prepaid expenses	(5,256)	26,064
Increase (decrease) in liabilities:		
Accounts payable	(11,346)	17,764
Payable to affiliates	553,787	312,196
Other accrued liabilities	16,740	4,932
Net cash provided by (used for) operating activities	\$ (79,300)	\$ 166,058
Summary of noncash financing activities:		
Sale of capital assets	\$ 7,479	\$ -
Increase in receivables	(7,479)	-
	\$ -	\$ -
Operating grants received	\$ -	\$ 89,099
Increase in inventories	-	(89,099)
	\$ -	\$ -

See accompanying notes to financial statements.

# MAJURO WATER AND SEWER COMPANY, INC.

Notes to Financial Statements  
September 30, 2013 and 2012

## (1) Organization

Majuro Water and Sewer Company, Inc. (MWSC) was granted a corporate charter by the Cabinet of the Republic of the Marshall Islands (RepMar) on January 26, 1989. MWSC's principal lines of business are predominantly the collection and distribution of fresh water and wastewater. The principal markets for the collection and distribution of fresh water and wastewater are government agencies, businesses and residential customers located on the atoll of Majuro.

An exclusive franchise to construct, maintain and operate the fresh water, waste water and sewer system within Majuro Atoll was granted to MWSC by RepMar on March 9, 1989. Simultaneously, RepMar leased to MWSC, at no cost, the Majuro Atoll fresh water, waste water and sewer system. The term of both the lease and the franchise was for a ten year period commencing on March 9, 1989, and was to continue thereafter unless terminated by either party six months after written notice to the other.

On February 19, 2003, RepMar and MWSC entered into a Water and Sewer Franchise Agreement (the Agreement) to provide water and sewer service to the atoll of Majuro. The Agreement incorporates a lease agreement for MWSC to lease from RepMar the water and sewer system for a period of ten years at a rate of \$100,000 per annum, commencing three years after the lease is in effect (February 19, 2006). The Agreement also forgave loans related to the construction of the water and sewer system and transferred the water system infrastructure to RepMar. RepMar and MWSC elected to record the forgiveness of these loans, and the related transfer of the water and sewer system asset from MWSC to RepMar, during the year ended September 30, 2002.

MWSC's financial statements are incorporated into the financial statements of RepMar as a component unit.

## (2) Summary of Significant Accounting Policies

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, establishes financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to the requirements of GASB Statement 34, equity is presented in the following net position categories:

- Net investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Restricted net position - resources in which MWSC is legally or contractually obligated to spend resources in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.
- Unrestricted; net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

# MAJURO WATER AND SEWER COMPANY, INC.

Notes to Financial Statements  
September 30, 2013 and 2012

## (2) Summary of Significant Accounting Policies, Continued

### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. MWSC considers utility revenues and costs that are directly related to utility operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

### Cash

Custodial credit risk is the risk that in the event of a bank failure, MWSC's deposits may not be returned to it. Such deposits are not covered by depositor insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. MWSC does not have a deposit policy for custodial credit risk.

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2013 and 2012, cash was \$170,233 and \$190,503, respectively, and the corresponding bank balances were \$175,169 and \$55,474, respectively, of which \$158,974 and \$41,274, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2013 and 2012, bank deposits in the amount of \$158,974 and \$41,274, respectively, were FDIC insured. MWSC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized. Accordingly, these deposits were exposed to custodial credit risk.

### Receivables

All receivables are due from government agencies, businesses and individuals located within the Republic of the Marshall Islands and are interest free and uncollateralized. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

### Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market (net realizable value).

# MAJURO WATER AND SEWER COMPANY, INC.

Notes to Financial Statements  
September 30, 2013 and 2012

## (2) Summary of Significant Accounting Policies, Continued

### Plant and Equipment

Plant and equipment are stated at cost. Depreciation of plant and equipment and amortization of leasehold improvements are calculated on the straight-line method based on the estimated useful lives of the respective assets. Individual items with a cost of \$500 and an expected useful life of three years or longer are capitalized. The estimated useful lives of these assets are as follows:

Vehicles	2 - 4 years
Office equipment	3 - 8 years
Buildings and leasehold improvements	4 years
Machinery and equipment	5 - 10 years

### Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. MWSC has no items that qualify for reporting in this category.

### Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. MWSC has no items that qualify for reporting in this category.

### Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross revenue tax of 3% on revenues. Pursuant to the Income Tax Act of 1989, as amended, sales of water and sewer services by public utility companies are exempt from gross revenue tax. Accordingly, MWSC is exempt from this tax relating to gross revenue from sales of water and sewer services.

### Revenue Recognition

Sales of water are recorded as billed to customers on a monthly billing cycle basis with customer water meters being read at the end of each month. Revenue is recognized in the period the meters are read. Wastewater treatment is billed at a flat rate of \$12 per month for residential accounts and \$9 per pan for commercial and government accounts. Water delivery sales and hook-up fees are recorded when the services are provided to customers.

## MAJURO WATER AND SEWER COMPANY, INC.

Notes to Financial Statements  
September 30, 2013 and 2012

### (2) Summary of Significant Accounting Policies, Continued

#### New Accounting Standards

During the year ended September 30, 2013, MWSC implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position.

# MAJURO WATER AND SEWER COMPANY, INC.

Notes to Financial Statements  
September 30, 2013 and 2012

## (2) Summary of Significant Accounting Policies, Continued

### New Accounting Standards, Continued

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of MWSC.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of MWSC.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of MWSC.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of MWSC.

## (3) Risk Management

MWSC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. MWSC has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. However, as of September 30, 2013, MWSC is self-insured for any losses that could befall its buildings, equipment and inventory. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. No losses as a result of these risks have occurred in any of the past three years.

## MAJURO WATER AND SEWER COMPANY, INC.

### Notes to Financial Statements September 30, 2013 and 2012

#### (4) Capital Assets

Capital asset activity for the years ended September 30, 2013 and 2012 was as follows:

	2013			
	October 1, <u>2012</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2013</u>
Vehicles	\$ 153,724	\$ 28,300	\$ (17,479)	\$ 164,545
Machinery and equipment	356,567	53,591	-	410,158
Office equipment	115,728	42,108	-	157,836
Buildings and leasehold improvements	<u>95,987</u>	<u>-</u>	<u>-</u>	<u>95,987</u>
	722,006	123,999	(17,479)	828,526
Less accumulated depreciation and amortization	<u>(351,480)</u>	<u>(122,939)</u>	<u>-</u>	<u>(474,419)</u>
	<u>\$ 370,526</u>	<u>\$ 1,060</u>	<u>\$ (17,479)</u>	<u>\$ 354,107</u>
	2012			
	October 1, <u>2011</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2012</u>
Vehicles	\$ 193,495	\$ 17,479	\$ (57,250)	\$ 153,724
Machinery and equipment	324,179	70,923	(38,535)	356,567
Office equipment	36,954	94,487	(15,713)	115,728
Buildings and leasehold improvements	<u>62,623</u>	<u>33,364</u>	<u>-</u>	<u>95,987</u>
	617,251	216,253	(111,498)	722,006
Less accumulated depreciation and amortization	<u>(382,484)</u>	<u>(80,494)</u>	<u>111,498</u>	<u>(351,480)</u>
	<u>\$ 234,767</u>	<u>\$ 135,759</u>	<u>\$ -</u>	<u>\$ 370,526</u>

#### (5) Restricted Net Position

Restricted net position at September 30, 2013 and 2012, consist of the following:

	<u>2013</u>	<u>2012</u>
RepMar capital grants	\$ 226,840	\$ 150,000
Government of Australia	<u>-</u>	<u>73,648</u>
	<u>\$ 226,840</u>	<u>\$ 223,648</u>

#### (6) Related Party Transactions

MWSC is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities. MWSC's utility service is provided to RepMar and all RepMar-owned and affiliated entities. Services are extended to these entities at more favorable terms and conditions than those afforded to third parties. MWSC utilizes services from certain affiliated entities at substantially more favorable terms and conditions than those provided to third parties.

During the year ended September 30, 2013, MWSC received a contribution from RepMar in the amount of \$150,000, of which \$58,781 was spent to pay various vendors for equipment.

## MAJURO WATER AND SEWER COMPANY, INC.

Notes to Financial Statements  
September 30, 2013 and 2012

### (6) Related Party Transactions, Continued

During the year ended September 30, 2012, MWSC received a contribution from RepMar in the amount of \$150,000, which was paid to a vendor as a deposit for the acquisition of equipment. At September 30, 2013, MWSC has outstanding prepayment balance of \$108,805.

During the year ended September 30, 2012, MWSC received a contribution from RepMar in the amount of \$149,200 representing a grant from the Government of Australia for the acquisition of a utility billing system and accounting software. At September 30, 2013, unexpended amount of \$15,732 was returned to the grantor.

During the year ended September 30, 2012, MWSC received a contribution from RepMar in the amount of \$89,099 representing a grant from the Secretariat of the Pacific Regional Environment Programme, which was paid directly to a vendor for the acquisition of inventory.

A summary of related party transactions for the years ended September 30, 2013 and 2012, and related receivable and payable balances as of September 30, 2013 and 2012, is as follows:

	2013			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 210,319	\$ 10,409	\$ 143,287	\$ 56,043
Marshalls Energy Company, Inc.	5,032	539,692	34,291	1,105,685
Marshall Islands National Telecommunications Authority	4,007	22,414	4,086	1,196
Marshall Islands Social Security Administration	776	57,467	458	39,537
Majuro Resort, Inc.	23,103	13,620	10,297	9,247
Other	<u>102,461</u>	<u>10,717</u>	<u>96,857</u>	<u>6,663</u>
	<u>\$ 345,698</u>	<u>\$ 654,320</u>	<u>\$ 289,276</u>	<u>\$ 1,218,371</u>
	2012			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
RepMar	\$ 203,839	\$ 22,311	\$ 108,682	\$ 7,475
Marshalls Energy Company, Inc.	5,704	479,851	33,356	642,799
Marshall Islands National Telecommunications Authority	2,483	12,248	3,290	1,000
Marshall Islands Social Security Administration	1,119	55,104	424	12,848
Majuro Resort, Inc.	50,244	1,050	12,236	-
Other	<u>21,815</u>	<u>11,418</u>	<u>22,664</u>	<u>462</u>
	<u>\$ 285,204</u>	<u>\$ 581,982</u>	<u>\$ 180,652</u>	<u>\$ 664,584</u>

Receivables from and payables to affiliates are uncollateralized, are interest free and have no set repayment terms.

### (7) Commitment

On February 19, 2003, RepMar and MWSC entered into a franchise agreement to provide water and sewer service to the atoll of Majuro. The agreement incorporates a lease agreement for MWSC to lease from RepMar the water and sewer system for a period of ten years at a rate of \$100,000 per annum, commencing three years after the lease is in effect (February 19, 2006).

## MAJURO WATER AND SEWER COMPANY, INC.

Notes to Financial Statements  
September 30, 2013 and 2012

### (7) Commitment, Continued

Total future minimum lease payments for subsequent years ending September 30, are as follows:

<u>Year ending</u> <u>September 30,</u>	
2014	\$ 866,667
2015	100,000
2016	<u>33,333</u>
	<u>\$ 1,000,000</u>

During the years ended September 30, 2013 and 2012, MWSC did not record the liability per the franchise agreement due to lack of capacity to make the payments in the foreseeable future. MWSC essentially depends on financing from RepMar and MEC to be able to continue as a going concern. Thus, management will negotiate the franchise terms with RepMar. If negotiations fail, MWSC may become liable for the above amounts but management does not believe that it will possess the ability to liquidate that liability.

### (8) Going Concern

MWSC has incurred losses from operations of \$511,770 and \$405,279 during the years ended September 30, 2013 and 2012, respectively. Management believes that the continuation of MWSC's operations is dependent upon the future financial support of RepMar, compensation by RepMar for the cost of actual utility service provided, the collection of long outstanding utility receivables, and/or significant improvements in operations, among other matters. Additionally, in order for MWSC to continue as a going concern, it may need to delay payments to the Marshalls Energy Company, Inc. for electric usage.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Majuro Water and Sewer Company, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Majuro Water and Sewer Company, Inc. (MWSC), which comprise the statement of net position as of September 30, 2013, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 8, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered MWSC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MWSC's internal control. Accordingly, we do not express an opinion on the effectiveness of MWSC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2013-1 through 2013-4 to be material weaknesses.

## **Compliance and Other Matters**

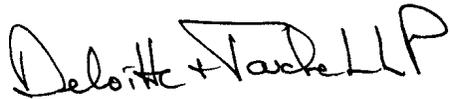
As part of obtaining reasonable assurance about whether MWSC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2013-5.

## **MWSC's Responses to Findings**

MWSC's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. MWSC's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Deloitte + Tuckers LLP". The signature is written in a cursive, stylized font.

September 8, 2014

**MAJURO WATER AND SEWER COMPANY, INC.**

Schedule of Findings and Responses  
Year Ended September 30, 2013

Finding No. 2013-1

Financial Reporting

Criteria: Timely financial reporting should be facilitated by an internal control structure conducive to the preparation and independent review of reconciliations of all significant general ledger accounts.

Condition: MWSC did not close fiscal year September 30, 2013 financial information (trial balance and subsidiary ledgers) until May 20, 2014.

Cause: The cause of the above condition is the lack of timely closing of the year-end with reviews and reconciliations of all significant general ledger accounts.

Effect: The trial balance was not provided for audit in a timely manner.

Recommendation: We recommend that MWSC implement internal control policies and procedures to facilitate more timely general ledger reconciliation processes.

Auditee Response and Corrective Action Plan: MWSC is in agreement with Finding No. 2013-1 and recommendation. As indicated lack of timely closing of the year-end with reviews and reconciliations of all significant general ledger accounts. MWSC management will establish internal control policies and procedure requiring monthly reconciliation of general accounts. Finance Manager to ensure that monthly reconciliation is perform on a timely manner.

## MAJURO WATER AND SEWER COMPANY, INC.

### Schedule of Findings and Responses, Continued Year Ended September 30, 2013

#### Finding No. 2013-2

##### Journal Entries

Criteria: Adequate accounting controls necessitated that journal entry and manual adjustment is appropriately approved.

Conditions: Our tests of journal entries noted the following conditions:

- A. One \$10,000 disbursement (check no. 15981) was erroneously recorded twice and was subsequently reversed as it was voided.
- B. One manual journal entry no. 197 originated from an inventory reconciliation. An overstatement of \$17,684 occurred in the inventory account balance which resulted from the journal entry. No approver's signature was noted on the journal voucher evidencing independent review prior to posting.
- C. One \$130 manual adjusting entry was recorded to agree a cash account FY13 beginning balance with the FY12 ending balance. The manual entry does not contain an approver's signature that evidences independent review of journal entries prior to posting.
- D. A manual journal entry was recorded to adjust accounts payable by \$5,000 but was subsequently reversed. Upon further scrutiny of the entry, no documentation was provided to document the basis of the amount initially recorded.
- E. A manual adjustment was used to accrue an electric bill for July to September 2013 instead of using the accounts payable sub-ledger to update the outstanding balance. Thus, the vendor's outstanding balance was not properly reflected in the aging report. Furthermore, the JV does not contain an approver's signature evidencing independent review prior to posting.
- F. A year-end adjustment with session ID no. 12JV0342A008 was recorded to close a prepayment and to recognize \$205,942 of inventory. Several invoices were not provided with attendant receiving reports to validate the actual receiving date. Furthermore, no approved signature was documented on the journal voucher that evidenced review of the entry prior to posting.

Cause: The cause of the above conditions is the lack of adequate internal control policies and procedures over the review of journal entries prior to posting in the accounting system.

Effect: The effect of the above conditions is a potential for unauthorized journal entries and recording of erroneous entries that may influence possible misstatements to the financial statements.

Recommendation: We recommend management to establish internal control policies and procedures to evidence review and approval of journal entries.

**MAJURO WATER AND SEWER COMPANY, INC.**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2013

Finding No. 2013-2, Continued

Auditee Response and Corrective Action Plan: MWSC is in agreement with Finding No. 2013-2 and recommendation. As noted lack of adequate internal control policies and procedure over the review of journal entries prior to posting in the account system. MWSC Management has establish internal control policies and procedures requiring all journal entries must have supporting documents attach by the preparer and approve by the reviewer.

**MAJURO WATER AND SEWER COMPANY, INC.**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2013

Finding No. 2013-3

Bank Reconciliations

Criteria: Adequate internal control policies necessitate that bank reconciliations be independently reviewed and approved.

Conditions:

- A. During our examination of bank reconciliations, we noted that such were not documented as to the preparer nor such were not documented as being independently reviewed and approved.
- B. The September 30, 2013 General bank account reconciliation included \$14,230 in reconciling items that appeared to be invalid due to a voided check (Check # 16254) for \$4,320 and the double recording of a cash disbursement transaction (Check # 15655) for \$10,000. Audit adjustments were proposed to correct this matter.
- C. The September 30, 2013 General bank account reconciliation included a deposit in transit, dated September 5, 2013, of \$4,399 that was not deposited to bank until October 1, 2013.

Cause: The cause of the above conditions is inadequate internal control policies and procedures over the bank reconciliation process.

Effect: The effect of the above conditions is exposure to possible misstatements of cash balances.

Recommendation: We recommend management adopt internal control policies and procedures requiring the independent review and approval of bank reconciliations. In addition, we recommend that reconciling items be addressed in a timely manner.

Auditee Response and Corrective Action Plan: MWSC is in agreement with Finding No. 2013-3 and recommendations. MWSC Management has established policies and procedures over the bank reconciliation. MWSC Management has hired an Account Payable Clerk to perform the monthly reconciliation of the bank of account.

**MAJURO WATER AND SEWER COMPANY, INC.**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2013

Finding No. 2013-4

GL Account Reconciliations

Criteria: Adequate internal control policies should be adopted and established to facilitate reliable and relevant accounting records.

Conditions:

- A. Inventory was not properly reconciled resulting in proposed audit adjustments of \$108,805. Furthermore, inventory valuation reports were not timely reconciled with the general ledger.
- B. Fixed asset additions of \$4,673 were not substantiated by adequate supporting receiving reports and work orders to validate their cost. Therefore, we were not able to verify the completeness of amounts capitalized. This amount was not considered to be material to the financial statements.
- C. Receiving reports for invoice nos. 10133, 10143, and 10144 were not available to evidence actual receipt of items purchased. Thus, we were not able to validate whether the purchased items were actually received as of September 30, 2013.
- D. Equipment of \$143,031 was improperly capitalized. This transaction resulted in a proposed audit adjustment.

Cause: The cause of the above conditions is inadequate internal control policies and procedures that would facilitate monitoring of purchase orders and would determine completeness of prepayment, inventory, fixed asset, and liability accounts.

Effect: The effect of above conditions is exposure to possible misstatements on interrelated general ledger accounts and relevance of required reports. Furthermore, we were not able to validate the timing of actual receipt that would determine cut off for inventory, prepayment, and liability.

Recommendation: We recommend management adopt internal control policies and procedures that would administer adequate documentation and ensure completeness of accounting records.

Auditee Response and Corrective Action Plan: MWSC is in agreement with Finding No. 2013-4 and recommendation. There will be a close coordination and communications between procurement department, Operations and Account department to ensure that purchase orders are verify with invoice to validate the completeness of Prepayment, inventory, fixed asset and liability accounts.

# MAJURO WATER AND SEWER COMPANY, INC.

## Schedule of Findings and Responses, Continued Year Ended September 30, 2013

### Finding No. 2013-5

#### Subrecipient Compact Fund Grant

Questioned Cost: \$41,077

#### Criteria:

- A. Section 6, *Required Reports*, of the subrecipient agreement between RepMar and MWSC states that MWSC shall provide the Secretary of Finance or its duly authorized representative, with a) Financial Status Report (FSR) detailing the total expenditures incurred during a financial quarter; and b) Annual Report at the end of the financial year.
- B. Section 11, *Assurance of Compliance with Applicable RMI Laws*, states that MWSC shall ensure compliance with all relevant laws of the RMI. RMI Procurement Code Section 124, *Methods of Source Selection*, states that all Government contracts shall be awarded by competitive sealed bidding, pursuant to Section 125 of the Act, except as provided in Sections 126, 127, 128, 129, 130, or 119(1)(d) of the Act.

#### Conditions:

- A. Our audit for required reports noted MWSC was not able to prepare and submit quarterly FSR covering FY13. Balances on the FY13 year-end report submitted to RepMar do not reconcile with accounting records examined.
- B. One disbursement charged under Compact Fund grant amounting \$41,077 was not provided with quotations from various vendors that would evidence competitive process for vendor selection. Thus, it appears that MWSC is noncompliant with RMI's Procurement Code requirement.

Cause: The cause of the above conditions is due to lack of adequate internal control policy that would facilitate MWSC's compliance to the relevant grant conditions and RMI laws and regulations.

Effect: The effect of the above conditions is noncompliance with the grant conditions and RMI laws and regulations.

Recommendation: We recommend management adopt internal control policy for compliance on the criteria.

#### Auditee Response and Corrective Action Plan:

- A. This was an overlook by MWSC's Management Team. As stated in the MOU between MOF and MWSC there should be a submitted quarterly FSR to MOF. MWSC will conform with its obligation to provide a quarterly FSR to MOF on its Compact fund allocation. Internal control will be set up to ensure that quarterly reports are submitted to MOF.
- B. This amount was used to purchase bobcat excavator to be used to do installation and maintenance work in small confined areas. The bobcat was purchased thru MEC. MEC has advised MWSC's management team that they will procure a bobcat with MWSC' reimbursing them later on. MWSC will ensure that any procurement that involves Compact funding will need to be approved by RMI's Bidding Committee. MWSC will implement a internal control policy to ensure that this sort of incident won't take place anymore.

**MAJURO WATER AND SEWER COMPANY, INC.**

Unresolved Prior Year Findings  
Year Ended September 30, 2013

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Responses section of this report.